



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Ordering Instituting Investigation on the
Commission's Own Motion into Methodology for
Economic Assessment of Transmission Projects.

Investigation 05-06-041

COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION OF ALJ TERKEURST

In accordance with Rule 77.2 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA") hereby submits its comments on the Proposed Decision ("PD") of Administrative Law Judge ("ALJ") TerKeurst.

DRA fully supports the PD and recommends its adoption. ALJ Terkeurst crafted a well-written, technically sound document that should serve the Commission well in future evaluations of proposed transmission projects. The subject matter is complex and has proved contentious on technical and policy bases, and most of the issues have needlessly lingered in Commission proceedings for over five years. Adoption of this PD would allow the Commission to "turn the corner" on transmission planning and evaluation, and should aid the ultimate goal of streamlining major transmission proceedings. As an added benefit, the principles and minimum requirements for the economic evaluation of transmission projects in certification proceedings adopted by the PD (and set forth in Attachment A to the PD) should spill over into other resource planning and procurement proceedings. The statewide planning process should be well served once the PD is adopted.

I. THRESHOLD ISSUE

The key threshold issue in this proceeding was whether the Commission should defer to the California Independent System Operator's ("CAISO's") findings and

determinations regarding the economic need for major transmission projects. The PD's summary states:

The CAISO's work in developing its Transmission Economic Assessment Methodology (TEAM) has advanced the state of the art in economic evaluations of transmission projects. We agree with and adopt many aspects of the CAISO's TEAM approach. As discussed in Section IV of this order, we believe that it would be counter to the public interest to shift the burden of proof from an applicant requesting a CPCN for a transmission project. Therefore, we decline to adopt the CAISO's proposal that a rebuttable presumption of economic efficiency be triggered in a CPCN proceeding in which the applicant relies on the study underlying a CAISO determination that the transmission project is cost effective. (PD, mimeo. at 2.)

The PD gets it right. The Commission decision should adopt the PD's language.

II. ADOPTED PRINCIPLES

The core of the PD (pages 26-63) addresses the parties' recommendations on the appropriate principles for the assessment of the economic benefits of proposed transmission projects. The issue-by-issue discussion is thorough and based on the record in this proceeding. The PD summarizes the adopted principles as follows:

1. The CAISO's standardized benefit-cost methodology shall be used to measure the economic benefits of proposed transmission projects. The perspective of CAISO ratepayers is of primary importance in a CPCN proceeding, although there is value in reviewing benefit-cost results from other perspectives as well.
2. The CAISO's framework for the computation of potential energy benefits shall be used. Parties shall assess energy benefits using established, credible, and commercially available production cost modeling tools. The applicant may decide whether to include market power mitigation benefits as part of its demonstration of need for a proposed transmission project.
3. In addition to energy benefits, other economic effects of a transmission project may be considered, including economic effects that may not be quantifiable.
4. Economic evaluations shall consider how uncertainty about future system and market conditions affects the likelihood that a transmission project's forecasted benefits will be realized.

5. Economic evaluations shall use baseline resource plans and assumptions about the system outside the applicant's service territory that are consistent with resource plans and system assumptions used in procurement or other recent Commission proceedings, updated as appropriate.
6. Economic evaluations shall consider feasible resource alternatives to the proposed transmission project. (PD, mimeo. at 3-4.)

These principles are very closely aligned with DRA's recommendations throughout this proceeding, and should be adopted without modification.

III. DRA RECOMMENDATIONS REJECTED BY THE PD

The PD rejects two of DRA's recommendations. One would require that each project should have a minimum investor-owned-utility ("IOU")-specific benefit-cost ratio of .75 for non-sponsoring IOUs (the inter-utility equity proposal). The other would require an aggregate benefit-cost ratio of 1.25 and an undiscounted payback period of 15 years. Each of these recommendations is intended to ensure reasonable conservatism on the part of project proponents.

On balance, the adopted principles, in particular numbers two, four and six in Attachment A, incorporate the necessary and sufficient conservatism sought by DRA. In addition, we believe the adopted principles would not preclude DRA or any party from introducing analysis which addresses inter-utility equity or minimum benefit-cost thresholds, subject to the normal rules of evidence in Commission proceedings.

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IV. CONCLUSION

DRA fully supports the PD of ALJ TerKeurst, and recommends that the Commission adopt the PD in its entirety.

Respectfully submitted,

/s/ MARION PELEO

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July 10, 2006

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document **“COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION OF ALJ TERKEURST”** in **I.05-06-041**.

A copy has been e-mailed to all known parties of record who have provided electronic mail addresses. In addition, all known parties of record who did not provide electronic mail addresses have been served by first-class mail.

Executed in San Francisco, California, on the 10th day of July, 2006.

/s/ ANGELITA MARINDA

Angelita Marinda

CALIFORNIA PUBLIC UTILITIES COMMISSION
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